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University of Alberta
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Edmonton, Alberta T6G 2R6



ENERGY SERVICES LTD.



1998

FIRST ANNUAL REPORT TO SHAREHOLDERS

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders of Profab Energy Services Ltd. will be held on June 18, 1999 at 3:00 PM in the Main Board Room of Burnet, Duckworth & Palmer, located at 1400, 350-7th Avenue S.W., Calgary, Alberta.

TABLE OF CONTENTS

Highlights	1
Report to the Shareholders	2
Management's Discussion and Analysis	4
Statement of Management's Responsibilities	7
Auditors' Report	7
Consolidated Financial Statements	8
Notes to Consolidated Financial Statements	10
Corporate Information	IBC

CORPORATE PROFILE

Profab Energy Services Ltd. ('Profab') is a Calgary-based corporation specializing in the design, engineering and fabrication of gas compression, gas processing, and oil-related facilities for the oil and natural gas producers of western Canada. Profab consists of two subsidiaries, TG Engineering Ltd. ('TG Engineering') and Profab Manufacturing Ltd. ('PML'). TG Engineering is involved in the design, engineering and project management of oil and natural gas production facilities. Profab Manufacturing is involved in design engineering, fabrication and assembly of oil and natural gas production equipment. This subsidiary also performs a limited amount of oilfield construction work. Together, the two subsidiaries provide Profab with the capacity to undertake oil and natural gas facilities projects in their entirety, from design, engineering and fabrication to installation and maintenance.

Shares of Profab are listed on The Alberta Stock Exchange and trade under the symbol *PFE*.

CORPORATE TIMELINE

June 25, 1987

Bimac Industries Ltd. incorporates pursuant to the *Business Corporations Act* (Alberta).

July 16, 1990

TG Engineering Ltd. incorporates pursuant to the *Business Corporations Act* (Alberta).

March 27, 1997

Profab Energy Services Ltd. incorporates pursuant to the *Business Corporations Act* (Alberta) under the name Professional Fabricators Ltd.

December 12, 1997

Professional Fabricators Ltd. changes name to Profab Energy Services Ltd.

April 1, 1998

Profab acquires TG Engineering Ltd.

May 15, 1998

Profab acquires Bimac Industries Ltd.

October 7, 1998

Profab completes Initial Public Offering of three million common shares for gross proceeds of \$1.5 million.

March 3, 1999

Profab announces a \$4 million integrated engineering, fabrication and construction management services project for a sour gas compression and dehydration facility in northeast British Columbia.

1998 OBJECTIVES AND PERFORMANCE

Acquire businesses that complement Profab's overall strategy

On April 1st, Profab acquired TG Engineering Ltd. and on May 15th, it acquired Bimac Industries Ltd., which has since been renamed Profab Manufacturing Ltd. TG Engineering has been in the oil and gas engineering business for more than nine years and along with the Bimac acquisition enhances the Corporation's service offerings in the installation of oil and gas pipelines, gathering systems, facilities, and compression and dehydration systems.

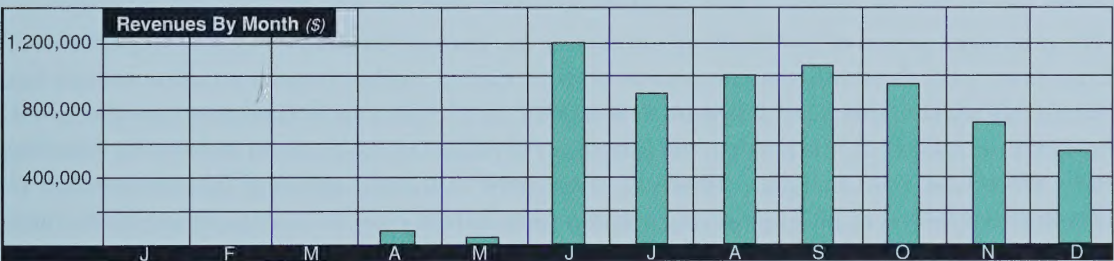
Financing for the Bimac acquisition was completed through bridge financing, with the loan repaid upon completion of the Corporation's Initial Public Offering (IPO) in October.

Become Publicly Held

Profab began trading on The Alberta Stock Exchange in October 1998 with an IPO of three million common shares for proceeds of \$1.5 million.

Generate \$7,310,000 in revenue to December 31, 1998

Revenues were seven percent short of projections due to the reduction in industry capital spending resulting from decreased confidence in oil and gas prices. For the same reason, Profab's margins also dropped to 17 percent and it is expected that they will remain relatively flat for the upcoming year. Although achievement of the Corporation's objectives have been slowed by the decline in industry activity, it is expected that Profab's performance will be enhanced in the third quarter of 1999 and continue to improve as confidence is regained in the oil and gas sector.



1998 HIGHLIGHTS

Financial Summary (based on nine months of operations)

For the period ended December 31

	1998	1997
Revenue	\$ 6,765,828	\$
EBITDA	\$ 397,719	
per basic common share	\$ 0.0594	
Net Earnings	\$ 121,687	
per basic common share	\$ 0.0182	
Cash Flow from Operations	\$ 190,309	
per basic common share	\$ 0.0284	
Capital Expenditures	\$ 1,841,353	
Working Capital	\$ 1,122,129	\$ 157,439
Long-term Debt	\$ 359,353	
Total Assets	\$ 3,928,966	\$ 201,270
Shareholders' Equity	\$ 2,191,835	\$ 196,480
Basic Number of Common Shares Outstanding		
weighted average	6,692,233	0
at period end	9,933,500	4,339,000

REPORT TO THE SHAREHOLDERS

We are very pleased to present our shareholders with Profab's first Annual Report.

Profab's corporate strategy is to provide oil and gas producers with effective and innovative solutions for their production facility requirements - solutions that are cost-effective and that reduce the time lapse between obtaining necessary approvals and going on stream. It is our integrated approach that separates us from our competitors - we are able to provide a full-service spectrum of engineering, fabrication, construction and service support. Our capabilities in custom modular designs, fabrication, and refurbishing used equipment effectively meet customer needs while minimizing their capital costs.

In 1998, we made two acquisitions which have provided us with the experience and expertise necessary to build a solid foundation upon which the Corporation can grow and take full advantage of the increased emphasis on natural gas production in western Canada. The acquisition of Bimac Industries Ltd. provides us with an entrance into the oil and gas production equipment fabrication sector and TG Engineering complements this by providing consulting services associated with development, fabrication, installation and maintenance of oil and gas production equipment.

The prolonged period of low crude oil prices over the last year has had a negative impact on our customers' cash flow and the consequent shift of capital market interest to other sectors has negatively affected their ability to raise new capital. As a result, capital spending throughout the industry decreased. By the fall of 1998, this began to impact our fabrication division by reducing sales levels and gross margins. However, these same customer spending cuts contributed to stable activity levels in the engineering division since industry layoffs force producers to increase their levels of outsourcing. The renewed focus on cost control by producers should also allow us to more easily market our integrated approach to the engineering, fabrication and construction of oil and gas production facilities.

Our financial performance for 1998 was not unexpected given the state of the industry. Consolidated revenues were seven percent below our target and gross margins for the manufacturing subsidiary were 17 percent compared to historical margins of over 20 percent. However, despite the capital markets' disinterest in the oil and gas services industry, we had a very successful Initial Public Offering in October, allowing us to raise gross proceeds of \$1.5 million through the issuance of three million common shares. With these proceeds, we reduced our long-term debt to only \$451,521.

With a healthy balance sheet, a working capital surplus of over \$1,100,000, unused credit lines and low debt, we will be able to survive the industry downturn, and will be well positioned to take advantage of the improved market conditions expected by the third quarter of 1999.

Our goal is to enhance shareholder value by becoming the provider of choice for oil and gas production facilities requirements and by offering a complete range of products and services including engineering, fabrication, construction and field service. With this goal in mind, we took the following key actions in 1998:

- acquired TG Engineering Ltd., allowing Profab to expand the product offerings of its manufacturing division by providing technical expertise in addition to engineering services as part of its integrated approach
- acquired Bimac Industries Ltd., providing Profab with fabrication capabilities and expertise to complement the engineering division
- recruited a premium management team and identified synergies between the two operating subsidiaries; new additions to management are:
Rick Giammarino, Vice President, Engineering
Brian D. LeBlanc, Vice President, Finance and Administration
Frank Zahner, Vice President, Manufacturing
- implemented a Y2K-compliant computerized accounting and management information system; when fully implemented in June 1999, the system will streamline measurement and control of costs and profitability
- expanded the manufacturing division's product line to include natural gas dehydration packages, line heaters and specialized gas processing equipment
- expanded the customer base for both operating divisions; new customers include several junior, intermediate and senior producers

The recent increase in crude oil prices from historic lows is beginning to positively influence our customers' spending plans. We are cautiously optimistic that the worst of the industry downturn is over, and that 1999 will be a year of recovery, with moderate growth in revenues. In the short term, until we are convinced that the oil price recovery is sustainable, our primary focus will continue to be controlling cost and improving operating efficiencies.

Our corporate objectives for 1999 are to:

- complete the implementation of the management information system by June 1999
- complete the implementation of PML's safety program by December 31, 1999
- improve the operating efficiencies of Profab Manufacturing Ltd.

We have also identified several potential acquisitions and new business ventures that are in keeping with our overall strategy and, as appropriate, we will take advantage of these opportunities to increase shareholder value. As we expand our business, we expect to raise staffing levels accordingly to better serve our customers.

I would like to take this opportunity to acknowledge the hard work, perseverance and dedication over the last year of our employees, Officers and Directors. I would also like to welcome our new Officers to the Profab team and welcome Brian O'Leary and Bruce Webster who joined our Board of Directors in April and July, respectively. Finally, on behalf of the Board, I wish to thank our shareholders, customers, and suppliers for their continued support in 1998.



Fred Di Tomaso
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

The following discussion is based upon Profab Energy Services Ltd.'s consolidated financial statements which were prepared in accordance with GAAP (generally accepted accounting principles). The accompanying analysis of the financial condition and results of the Corporation should be read in conjunction with the Corporation's consolidated financial statements. Certain statements in the discussion may constitute estimates of future activities which may be affected by general economic activity, commodity prices, government regulations, and other business conditions that may be out of management's control, but which may negatively impact future performance of the Corporation.

Financial and Operational Highlights

<i>April 1, 1998</i>	acquired TG Engineering Ltd.
<i>May 14, 1998</i>	acquired Bimac Industries Ltd. (now Profab Manufacturing Ltd.)
<i>May 29, 1998</i>	obtained bridge financing to assist in the purchase of Bimac
<i>October 7, 1998</i>	fully subscribed an Initial Public Offering of three million common shares
<i>October 7, 1998</i>	repaid bridge financing

Results of Operations

Profab Energy Services Ltd. was incorporated in March 1997 under the name Professional Fabricators Ltd. In April 1998, Profab acquired TG Engineering Ltd. TG provides engineering and project management services to oil and gas producers in the design and construction of production facilities such as gas compressors or stations, well site compressors, gas dehydrators, gas processing facilities and pipelines. Consideration for the purchase of TG was \$450,000, and was paid for by the issuance of 1,800,000 common shares. TG continues to operate under its original name as a wholly owned subsidiary of Profab.

In May of 1998, Profab completed the acquisition of Bimac Industries Ltd. Bimac was incorporated in June of 1987, and its primary business is manufacturing oil and gas production equipment such as modular gas compressors, oil/water/gas separators and water disposal pump packages. The purchase price for Bimac was \$1,420,00 plus working capital and other adjustments, and was paid for utilizing a bridge loan and operating loan facility obtained from Alberta Treasury Branches. The Bimac name was subsequently changed to Profab Manufacturing Ltd. PML operates as a wholly owned subsidiary of Profab.

Profab completed its Initial Public Offering in October of 1998. The IPO comprised the issuance of up to three million common shares at \$0.50 per share and was fully subscribed.

Following the acquisition of Bimac, its manual accounting system was replaced with a temporary computer-based system. Implementation of a permanent, fully integrated accounting and management information system was started in late 1998, and is expected to be fully operational by the end of the second quarter in 1999. This system is fully year 2000 compliant, and will vastly improve management's abilities in measuring and controlling costs for Profab, our customers and our suppliers.

Profab's corporate philosophy has always been to safeguard the health and well-being of our employees and the environment. In 1998, PML commenced the implementation of a comprehensive health and safety program with the objective of having PML fully compliant with modern industry standards by the end of 1999.

Financial Analysis

Revenues

The accompanying financial statements include results for nine months of operating history for TG and seven and a half months for PML. The Corporation had operating revenue for nine months in 1998. It was the first year that the Corporation had operating revenues and they amounted to \$6,765,828. Profab's revenues were affected by low oil prices which resulted in lowered interest in the oil and gas sector, and therefore the amount of capital available to Profab's customers.

Revenues in May reflect those from TG Engineering and June's reflect those from Profab Manufacturing Ltd. from the date of acquisition. Revenues to year end were down as discussed above; however, it is expected that revenues will increase in the second and third quarters of 1999.

Bimac was acquired on May 15th with the purchase closing on May 29, 1998. The 16 days of revenue were deferred until June of 1998 and are reflected in June figures.

Operating Expenses

Operating expenses for the nine months in 1998 were \$5,594,696. This resulted in a gross margin of 17.3 percent or a gross profit of \$1,171,132, a significant difference from the 25 percent originally anticipated. This was due to the decline in activity in the last quarter of 1998. Margins are expected to be in the 15 percent range for most of 1999.

Depreciation and Amortization

The depreciation and amortization for the Corporation was \$77,222 which comprised \$31,671 for the amortization of goodwill for the purchase of PML, and \$45,551 in depreciation of equipment, office furniture and fixtures, and computer equipment.

General and Administrative Expenses

General and administrative expenses were \$911,822 for the year. Staff at year end comprised 53 individuals. A small increase is expected in 1999, as TG Engineering increases its activities to meet the needs of oil and gas producers that have trimmed their production staffing levels. The general and administrative expenses covered only nine months in 1998 and it is expected that these costs will increase over the full year in 1999 with the anticipated increase in staffing.

Current Assets

Current assets increased to \$2,439,507 from \$162,229 at year-end 1997. The majority of the increase was due to the purchase of ongoing operations, which increased accounts receivable from \$7,376 to \$1,828,505.

Long-term Assets

Long-term assets increased to \$284,887, with most of the increase attributable to the purchase of capital assets within the acquisitions. Goodwill through acquisitions increased by \$1,204,572. This amount will be amortized over a period of 25 years on a straight-line basis.

Liquidity and Capital Resources

Profab had a closing working capital of \$1,122,129 in 1998. Throughout the upcoming year, Profab's objective is to operate its activities using working capital, and to assess potential acquisitions based on how they will improve the overall corporate performance and service provided to both the customer and shareholders.

In 1998, Profab entered into a banking relationship with Alberta Treasury Branches to provide a line of credit, long-term financing of assets and bridge financing to assist in the acquisition of Bimac Industries. Total interest and banking fees for the year related to these financing arrangements were \$138,409.

The bridge financing for the Bimac acquisition was for \$1,200,000 and was paid in full upon completion of the IPO. The line of credit is secured to the receivables and is for a maximum of \$1,000,000. It was used in the acquisition of Bimac but was paid off in June and was not utilized during the rest of the year.

Long-term debt is tied to capital assets and was originally \$500,000. The balance at year end was \$451,521. This loan will be paid off over a period of five years at an interest rate of prime plus 0.75 percent.

Business Risks and Uncertainties

The demand for Profab's products and services is directly related to the level of expenditures made by oil and gas producers in western Canada. These expenditures are, in turn, dependent on crude oil and natural gas prices, and on availability of capital. Natural gas prices, while somewhat lower than in 1997, were relatively healthy in 1998. Crude oil prices, however, were at near-historical lows for much of 1998, reducing producers' cash flows and availability of capital.

The recent recovery of crude oil prices, and continuing strength in natural gas prices, should result in more normal activity levels in the latter half of 1999. Until activity levels improve, Profab will continue to focus on cost control and on improving operating efficiencies.

The Corporation believes it can gain a competitive edge by developing standard equipment designs for processing equipment that existing competitors do not possess and by integrating its entire range of products and services as a complete, single-source provider.

Year 2000 Compliance

The Year 2000 Issue ('Y2K') arises as a result of many computerized and embedded systems using two digits, rather than four, to represent a year. Therefore, date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates are processed. Y2K problems could arise at any time in 1999, and on or after January 1, 2000 and resulting processing errors or systems failures have the potential to negatively impact the Corporation's operations.

Profab Energy Services Ltd. has reviewed its inventory of computers, and is in the process of upgrading units that are not Y2K compliant. The Corporation has also contracted a leading management consulting group to assist Profab in the selection, implementation and training of a new integrated information system. Profab has fully reviewed its operations and management is confident that there will not be any outstanding Y2K issues related to its products or the products of its suppliers.

Outlook

The improvement in crude oil prices over recent months, and the still positive outlook for natural gas prices should result in increased activity levels as producers' cash flows increase, and capital markets look more favourably towards the oil and gas resource sector.

These increased activity levels are expected to have a positive impact on Profab's revenues and profitability starting in the third quarter of 1999.

Management believes that Profab's offering of a broad range of complementary products and services will provide the Corporation with a competitive advantage, as the Corporation's customers continue to focus on finding new ways of reducing their finding and development costs.

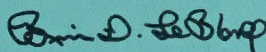
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The accompanying financial statements of Profab Energy Services Ltd. and all information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors. The financial statements have been prepared by Management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts which are based on best estimates and projections. Financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

Management has developed and maintains appropriate systems of internal controls to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable information for preparation of the financial statements.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through the Audit Committee, which comprises non-management directors. The Audit Committee meets with Management and external auditors to satisfy itself that Management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The financial statements have been examined by the shareholders' auditors Dick Cook Schulli Chartered Accountants and their report is presented separately herein.

**Fred Di Tomaso***President and Chief Executive Officer***Brian D. LeBlanc***Vice President, Finance and Administration***AUDITORS' REPORT*****To the Shareholders of Profab Energy Services Ltd.***

We have audited the consolidated balance sheet of Profab Energy Services Ltd. as at December 31, 1998 and 1997 and the consolidated statements of earnings and retained earnings and changes in financial position for the periods then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles.

*Calgary, Alberta**March 5, 1999***Chartered Accountants**

CONSOLIDATED BALANCE SHEETS*As at December 31, 1998 and 1997*

	1998	1997
Current Assets		
Cash	\$ 137,014	\$ 53,539
Accounts receivable - Note 4	1,828,505	7,376
Income taxes recoverable	126,236	-
Inventory - Note 5	318,556	-
Prepaid expenses and deposits	29,196	101,314
	2,439,507	162,229
Capital - Note 6	274,414	-
Deferred costs - Note 7	10,473	39,041
Goodwill	1,204,572	-
	\$ 3,928,966	\$ 201,270
Current Liabilities		
Accounts payable	\$ 1,199,973	\$ 4,790
Deferred revenue	25,237	-
Current portion of long-term debt - Note 9	92,168	-
	1,317,378	4,790
Long-term debt - Note 9	359,353	-
Deferred income taxes	60,400	-
	1,737,131	4,790
Shareholders' Equity		
Share capital - Note 10	2,070,148	196,480
Retained earnings	121,687	-
	2,191,835	196,480
	\$ 3,928,966	\$ 201,270

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS*For the nine months ended December 31, 1998 - Note 1*

Revenue	\$ 6,765,828
Cost of goods sold	5,594,696
Gross margin	1,171,132
Expenses	
Amortization	77,222
General and administrative	911,822
	989,044
Earnings before income taxes	182,088
Income taxes	
Current - Note 11	69,001
Deferred	(8,600)
	60,401
Net earnings	121,687
Retained earnings, beginning of year	-
Retained earnings, end of year	\$ 121,687
Earnings per common share	
Basic	\$ 0.018
Fully diluted	\$ 0.017

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION*For the periods ended December 31, 1998 and 1997*

	1998	1997
Cash provided by (used for):		
Operating activities		
Net earnings	\$ 121,687	\$ -
Add items not affecting cash		
Amortization	77,222	-
Deferred income taxes	(8,600)	-
	190,309	-
Net change in non-cash working capital items	(617,855)	(103,900)
	(427,546)	(103,900)
Financing activities		
Proceeds from bank loans	2,500,000	-
Repayment of bank loans	(2,048,479)	-
Shares issued for cash		
On incorporation	-	30
As founders' shares	-	3,500
Through private placement	490,000	209,000
Initial Public Offering	1,500,000	-
Share issue costs	(293,155)	(16,050)
Repurchase of shares	(90,000)	-
Shares issued on acquisition of TG	266,823	-
	2,325,189	196,480
Investing activities		
Acquisitions		
Net assets acquired	(653,160)	-
Goodwill	(1,160,735)	-
Purchase of capital assets	(27,458)	-
Deferred costs	27,185	(39,041)
	(1,814,168)	(39,041)
Increase in cash	83,475	53,539
Cash, beginning of period	53,539	-
Cash, end of period	\$ 137,014	\$ 53,539

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended December 31, 1998 and 1997

1. Operations

The Corporation was incorporated under the laws of Alberta as Professional Fabricators Ltd. on March 27, 1997. In October of 1997 it issued additional share capital and commenced the process of investigating the purchase of a business. It changed its name to Profab Energy Services Ltd. on December 12, 1997.

It completed its Initial Public Offering of common shares on October 7, 1998 and the shares of the Corporation commenced trading on The Alberta Stock Exchange on October 9, 1998.

The comparative figures are for the period from incorporation to December 31, 1997. All operating costs net of interest income have been charged to deferred costs for the period ending December 31, 1997 and for the period to April 1, 1998 when commercial operations were deemed to have commenced. These deferred costs amount to less than \$12,000 to April 1, 1998.

2. Business Acquisitions

During the year ended December 31, 1998, the corporation acquired all the outstanding shares of the following corporations:

(a) TG Engineering Ltd. ('TG')

Pursuant to a share purchase agreement effective April 1, 1998 the Corporation purchased all of the outstanding shares of TG from a significant shareholder of the Corporation in exchange for 1,800,000 shares of the Corporation.

This is a related-party transaction and as a result, the assets and liabilities have been combined and accounted for at their carrying value in TG's accounting records. The results of operations are included in these financial statements from the date of acquisition. The carrying value of assets is as follows:

Non-cash current assets	\$	280,063
Current liabilities		(83,633)
Capital assets		42,729
Other assets		20,000
		259,159
Cash acquired		7,664
Net carrying value of assets acquired	\$	266,823
Consideration:		
Shares	\$	266,823
Acquisition costs		6,598
	\$	273,421
Excess of purchase over net assets acquired ('goodwill')	\$	6,598

The transaction has been completed using the provisions of Section 85 of the Income Tax Act.

(b) Bimac Industries Ltd. ('Bimac')

Pursuant to a share purchase agreement dated December 9, 1997, with an effective date at the close of business on May 14, 1998 the Corporation purchased all of the outstanding shares of Bimac for a total consideration of \$1,420,000.

The transaction has been accounted for using the purchase method with the results of operations being included in these financial statements from the date of acquisition.

The fair value of the net assets are as follows:

Non-cash current assets	\$ 4,242,741
Current liabilities	(2,155,426)
Capital assets	248,395
Other liabilities	(1,956,888)
Deferred income taxes	6,508
	385,330
Cash acquired	1,007
Net assets acquired	\$ 386,337
Consideration:	
Cash	\$ 1,420,000
Acquisition costs	120,474
	\$ 1,540,474
Excess of purchase costs over net assets acquired ("goodwill")	\$ 1,154,137

3. Significant Accounting Policies

The financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. The financial statements have, in Management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Basis of presentation

The consolidated financial statements include the accounts of Profab Energy Services Ltd. and its wholly owned subsidiaries, TG Engineering Ltd. and Profab Manufacturing Ltd. (formerly Bimac Industries Ltd.). The accounts of TG have been included from April 1, 1998 and Bimac from May 15, 1998.

(b) Inventory

Raw materials and work in progress are valued at the lower of cost and net realizable value. Work in progress includes raw materials and direct labour.

(c) Capital assets

Capital assets are recorded at cost. Amortization is provided for using rates designed to amortize their cost over their estimated useful lives at the following annual rates:

Equipment	20% declining balance
Office equipment	20% declining balance
Furniture and fixtures	20% declining balance
Vehicles	30% declining balance
Computer equipment	30% declining balance

Only one half of the normal amortization is provided for in the year of acquisition.

(d) Goodwill

Goodwill represents the excess of the purchase price over the value attributed to net assets acquired. Goodwill is amortized on a straight-line basis over a period of twenty-five years. The recoverability of goodwill is assessed periodically based on estimated future cash flows.

(e) Deferred costs

All costs incurred in identifying business acquisitions and raising equity financing are capitalized until such time as the acquisition or equity financing is completed or abandoned. When an acquisition or equity financing project is completed, the associated costs will be

capitalized as a part of the purchase price of the acquisition or charged as a cost against raising the equity financing. If an acquisition or equity financing project is abandoned the associated costs will be expensed.

All costs directly related to the start-up of the Corporation have been capitalized as pre-commencement of business costs. These costs include all salaries, consulting fees, and administration. Management will commence amortization of these costs over a period of five years, effective June 1, 1998.

(f) *Income taxes*

The Corporation follows the tax allocation method in providing for income taxes, whereby the income tax provision is based on the income reported in the accounts. Under this method, deferred income taxes arise as a result of providing for amortization for income tax purposes on a different basis than for accounting purposes. Deferred income taxes are provided for on these differences at current income tax rates.

(g) *Revenue recognition*

Revenues are recognized on the percentage of completion basis. The percentage of completion is determined by relating the actual cost of work performed to date to the current estimated total cost of the respective contracts. When the current estimated costs to complete indicate a loss, such a loss is recognized immediately for accounting purposes. Revisions in costs and earnings or loss estimates during the course of the work are reflected during the accounting period in which the facts which cause the revision are known.

(h) *Financial instruments*

Credit risk

A substantial portion of the Corporation's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects Management's assessment of the credit risk associated with these customers.

Fair value of financial assets and liabilities

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. The fair value of financial instruments is not estimated by Management to be materially different from the carrying value.

(i) *Earnings per share*

Basic earnings per share is calculated on the basis of the weighted average number of common shares outstanding during the year of 6,692,233. Fully diluted earnings per share information is calculated on the basis of the weighted average number of common shares that would have been outstanding had all the stock options been converted to common shares.

4. Accounts Receivable

Included in accounts receivable at December 31, 1998 is \$27,030 due from Directors and Officers of the Corporation. Subsequent to the year end, these amounts were collected.

5. Inventory

Inventory consists of:

	1998	1997
Raw materials	\$ 21,000	\$ -
Work in progress	297,556	-
	<u>\$ 318,556</u>	<u>\$ -</u>

6. Capital Assets

	1998			1997
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment	\$ 209,305	\$ 26,706	\$ 182,599	\$ -
Furniture and fixtures	41,673	17,887	23,786	-
Vehicles	27,000	5,062	21,938	-
Computer equipment	105,005	58,914	46,091	-
	\$ 382,983	\$ 108,569	\$ 274,414	\$ -

7. Deferred Costs

Deferred costs consist of:

	1998			1997
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Business acquisitions	\$ -	\$ -	\$ -	\$ 35,303
Pre-commencement of business	11,856	1,383	10,473	3,738
	\$ 11,856	\$ 1,383	\$ 10,473	\$ 39,041

Costs associated with business acquisitions at December 31, 1997 were included in the cost of the acquisitions disclosed in Note 2.

8. Bank Loans

The Corporation has available a credit facility to a maximum of \$1,000,000 bearing interest at prime plus one half of a percent which is secured by a general security agreement covering all assets of the Corporation and its subsidiaries, along with unlimited continuing guarantees from each subsidiary. At December 31, 1998 the Corporation was not utilizing this credit facility.

9. Long-term Debt

	1998	1997
Alberta Treasury Branch term loan, bearing interest of prime plus 0.75 percent, repayable in blended monthly principal and interest instalments of \$10,250, secured by a general security agreement covering all assets of the Corporation and its subsidiaries along with unlimited continuing guarantees from each subsidiary.	\$ 451,521	\$
Less current portion	92,168	
	\$ 359,353	\$

Principal payments due in the next five years are as follows:

1999	\$ 92,168
2000	\$ 99,346
2001	\$ 107,083
2002	\$ 115,422
2003	\$ 37,502

10. Share Capital

Authorized:

Unlimited number of common shares

Issued and outstanding:

	Number	1998 Amount	Number	1997 Amount
Balance, beginning of year	4,336,000	\$ 212,530	-	\$ -
On incorporation			300	30
As founders shares			3,499,700	3,500
Private placements	2,297,500	490,000	836,000	209,000
Acquisition of TG	1,800,000	266,823		
Initial Public Offering	3,000,000	1,500,000		
	11,433,500	2,469,353	4,336,000	212,530
Repurchase of shares	(1,500,000)	(90,000)	-	-
	9,933,500	2,379,353	4,336,000	212,530
Less costs of issuing shares	-	(309,205)	-	(16,050)
	9,933,500	\$ 2,070,148	4,336,000	\$ 196,480

(i) Escrow

Under the requirements of the Alberta Securities Commission and The Alberta Stock Exchange, 4,510,000 common shares issued are held in escrow. The escrowed shares will be released upon written consent of the Executive Director of the Alberta Securities Commission, as to one-third thereof on each of the first, second, and third anniversaries of the completion of the Corporation's Initial Public Offering.

(ii) Repurchase of shares

The Corporation repurchased an aggregate of 1,500,000 of the founders' shares for total consideration of \$90,000 during the period. The premium of \$88,500 paid on the repurchase has been deducted from share capital as it occurred prior to commencement of operations.

(iii) Stock option plan

The Corporation has a stock option plan whereby certain Officers, Directors, employees, and agents have been granted options to buy common shares of the Corporation, the details of which are as follows:

	Number	Exercise Price	Expiry Date
Agent	300,000	\$ 0.50	October 9, 2000
Officers and Directors	523,350	\$ 0.50	October 5, 2003
Employees	300,000	\$ 0.50	October 14, 2003

11. Income Taxes

The difference between the income tax provision using statutory income tax rates and the actual income tax provision is explained as follows:

	1998 Amount	1998 Rate
Income taxes calculated at statutory rates	\$ 81,248	44.62
Manufacturing and processing profits reduction	(13,433)	(7.38)
Amortization related to capital assets with a tax value different from book value	(8,600)	(4.72)
Non-deductible amortization	11,600	6.37
Other	(1,814)	(1.00)
Current income tax provision	\$ 69,001	37.89

12. Commitments

The Corporation has existing lease commitments for equipment and office space expiring between 2001 and 2003. Minimum annual lease payments required in each of the next five years are as follows:

1999	\$ 253,613
2000	\$ 258,968
2001	\$ 246,419
2002	\$ 226,722
2003	\$ 188,004

13. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

14. Pro-forma Segmented Information

The pro-forma segmented information includes the accounts of the Corporation's wholly owned subsidiaries TG Engineering Ltd. and Profab Manufacturing Ltd. (formerly Bimac Industries Ltd.), for the year ended July 31, 1997.

It assumes that the subsidiaries were acquired as of August 1, 1996. Additional adjustments have been made to amortize goodwill arising from these acquisitions over a period of twenty-five years on a straight-line basis. Income taxes have also been adjusted to reflect income taxes payable at rates applicable to public corporations.

For the year ended July 31, 1997

	Fabrication	Engineering	Consolidated
Segment revenue	\$11,629,153	\$ 987,480	\$12,616,633
Amortization	\$ 61,492	\$ 9,321	\$ 70,813
Earnings before income taxes	\$ 2,223,798	\$ 135,054	\$ 2,358,852
Provision for income taxes			897,000
Net earnings			\$ 1,461,852
Pro-forma earnings per share			\$ 0.150
Segment assets	\$ 3,161,402	\$ 333,865	\$ 3,495,267

15. Segmented Information

The Corporation operates in two reportable segments, with each segment offering different products and services. These segments are fabrication of gas compression, processing and oil related facilities, and engineering.

Operations commenced April 1, 1998 for engineering and May 15, 1998 for fabrication. Accordingly, segmented information is provided for the period ending December 31, 1998.

	Fabrication	Engineering	Consolidated
Segment revenue	\$5,992,746	\$ 799,760	\$ 6,792,506
Intersegment revenue	-	(26,678)	(26,678)
External revenue	\$5,992,746	\$ 773,082	\$ 6,765,828
Earnings before income taxes	\$ 167,916	\$ 14,172	\$ 182,088
Amortization	\$ 64,544	\$ 10,918	\$ 75,462
Segment assets	\$3,444,874	\$ 302,609	\$ 3,747,483
Corporate assets			44,469
Cash			137,014
			\$ 3,928,966
Capital expenditures	\$ 14,289	\$ 10,052	\$ 24,341
Corporate			3,117
			\$ 27,458

Inter-segment revenues are accounted for as sales to third parties, at fair market value.

BOARD OF DIRECTORS

Fred Di Tomaso

President and Chief Executive Officer
Profab Energy Services Ltd.
Calgary, Alberta

Giuliano A. Tamburrino

*Corporate Secretary and
Vice President, Business Development*
Profab Energy Services Ltd.
Calgary, Alberta

Brian P. O'Leary

Partner
Burnet, Duckworth & Palmer
Calgary, Alberta

Raymond Chiarastella

President and Chief Executive Officer
Bolt Energy Ltd.
Calgary, Alberta

Bruce Webster

President
Roxboro Capital Corp.
Calgary, Alberta

KEY MANAGEMENT PERSONNEL

Fred Di Tomaso

President and Chief Executive Officer

Giuliano A. Tamburrino

Vice President, Business Development

Brian D. LeBlanc

Vice President, Finance and Administration

Ricardo Giammarino

Vice President, Engineering

Frank Zahner

Vice President, Manufacturing

Profab Energy Services Ltd.

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Bankers

Alberta Treasury Branches
Calgary, Alberta

Registrar and Transfer Agent

Montreal Trust Corporation
of Canada
Calgary, Alberta

Auditors

Dick Cook Schulli,
Chartered Accountants
Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer
Calgary, Alberta

Trading Information

The Alberta Stock Exchange: PFE
Calgary, Alberta

For more information, please contact:

Fred Di Tomaso

President and Chief Executive Officer
or

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